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An unending variety of topics

Saturday, November 26, 2005

Specific cycles, trust minimization, and the *kula* ring

While responding to Ian Grigg's comment to my previous blog entry on *kula*, I came up with what is the most rigorous explanation for the two-collectible cycle that I've seen. The explanation neatly incorporates two patterns I've talked about in the past, namely (1) the literal circulation of collectibles in specific cycles to minimize non-coincidence transaction costs in a bilateral monopoly economy, and (2) trust minimization in institution design.

Posted by Nick Szabo at 4:05 PM

1 comment:

Iang said...

In PKI Considered Harmful I have added a new section from your (2) above:

Mental transaction costs when the user does "outsource Trust"

What then happens when Trust is "outsourced" and a PKI is used to intermediate this trust? In practice, what has happened is a shifting of the burden pattern, where the user has simply replaced her trust in the end second party with trust in the TTP. Szabo writes that:

Trust, like, taste, is a subjective judgment. Making such judgement requires mental effort. A third party with a good reputation, and that is actually trustworthy, can save its customers from having to do so much research or bear other costs associated with making these judgments. However, entities that claim to be trusted but end up not being trustworthy impose costs not only of a direct nature, when they breach the trust, but increase the general cost of trying to choose between trustworthy and treacherous trusted third parties [28].

Are the costs of choosing between good and bad TTPs commensurate with the benefits of not having to choose over second parties? That's an open question which Szabo does not address. However, it is important to point out that even if it were addressed, for many PKIs such as the public Internet ones, the option simply isn't there. See the sections below on One or Many CAs?

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

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3:27 AM

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